Testimony on the Effect of the Foreclosure Crisis on Twin Cities Communities and Neighborhoods before the House Committee on Financial Services by

Timothy E. Marx, Commissioner
Minnesota Housing Finance Agency

August 9, 2007

Mr. Chair, Representative Bachus, and members of the Committee, I am pleased to testify today about possible solutions to the dramatic increase in foreclosures in Minnesota and in the Twin Cities region.

Introduction

I am Tim Marx, Commissioner of the Minnesota Housing Finance Agency (Minnesota Housing). Minnesota Housing is a state agency that serves as the state's affordable housing financial institution. We invest \$1.5 billion of federal, state, and agency resources every biennium to affordably house Minnesotans. Minnesota is proud of its affordable housing record built in partnership with government at all levels (federal, state, and local), the private sector, foundations, and a broad network of nonprofit and faith based delivery partners. This partnership has resulted in Minnesota having the highest homeownership rate in the nation, 75.8%, and having a low percentage of its households (12% or 12th lowest among the states) with critical housing needs as measured by affordability. In addition, Minnesota has nation leading efforts to prevent and end homelessness and to close the minority homeownership gap. The ability of this partnership to maintain and improve on this record, however, is being challenged by the dramatic increase in foreclosures and their impact on individuals, families, and communities across the state.

In my testimony, I will offer three suggestions for what the Federal Government and Congress can do in response to the dramatic increase in foreclosure which Minnesota is confronting: (1) strengthen the Mortgage Revenue Bond (MRB) program; (2) provide funding for homebuyer education and foreclosure prevention; (3) increase funding for community revitalization efforts through the Home Investment Partnership (HOME) and Community Development Block Grant (CDBG) programs.

My testimony does not directly address the various proposals to regulate predatory and other unsound lending practices, as Minnesota Housing is not a regulator of financial practices. Our focus is on successful homeownership lending and foreclosure prevention. As the Committee deliberates on various proposals to regulate lending practices, we suggest the Committee work to strike a balance between preventing predatory and unsound lending practices and maintaining a sufficient and affordable supply of mortgage capital to finance homeownership opportunities for households with low and moderate incomes

1. Strengthen the Mortgage Revenue Bond (MRB) Program as an Alternative to Unsound Financial Products.

In 2006, Minnesota Housing purchased 2,784 first time homebuyer mortgages totaling over $341 million. Fifty-four percent of the homebuyers had incomes at or below 50% of the applicable median income; 99% were at or below 80% of the applicable median income.

At Minnesota Housing our $1.4 billion first mortgage homeownership loan portfolio is performing well while at the same time being targeted to the lower end of the eligible income spectrum – our average 60+ day delinquency rate for 2006 was 2.75% compared to our Mortgage Bankers Association benchmark rate of 2.97%. This is primarily because we, and our delivery partners, focus on long-term sustainable homeownership. We do not offer unsound lending or exotic mortgage products, and our loans are underwritten to Fannie Mae A paper standards. Additionally, our principal MRB programs constituting one-third of our lending volume require homebuyers to complete homebuyer training.

MRB loans are a positive alternative to unsound lending products, especially when paired with other tools to enhance affordability, such as downpayment assistance.

Congress can strengthen the MRB program by repealing the ten year rule that prohibits MRB issuers from reusing loan payments received more than 10 years after the underlying bond was sold for additional home mortgages. Repeal of this tax law would result in over $195 million of additional lending authority that would be available over 2007 and 2008 -- enough to fund over 1,500 additional mortgages for first-time homebuyers. Minnesota’s Third District Congressman, Jim Ramstad, worked for repeal of this rule in the last Congress, and continues to work with Ways and Means Chairman Rangel and Select Revenue Subcommittee Chairman Neal on repeal.

Congress can also increase the MRB resource by increasing the private activity bonding cap to allow issuers to provide more mortgages.

2. Fund and provide incentives for homebuyer and foreclosure prevention counseling.

It is clear that predatory and unsound lending occurs when borrowers do not understand the risks involved. Many first time homebuyers weren’t around during the days of double-digit interest rates and high defaults, and have not experienced a period when real estate appreciation was not the norm.

Minnesota supports homebuyer counseling, appropriating $1,730,000 to Minnesota Housing for supporting homeownership, counseling and training. This training is an important factor in Minnesota Housing’s favorable loan performance.

For homebuyers who are in, or at risk of foreclosure, we provide Foreclosure Prevention Assistance Program funds through fifteen administrators across the state that make deferred loans of up to $5,500 to eligible borrowers to help them keep their homes. The total 2006-07 funding for this program is $597,000.

The state is also making an additional $500,000 of funding available for an early intervention, targeted outreach effort directed at homeowners with subprime adjustable rate mortgages and homeowners in areas that are projected to suffer high foreclosure rates. The effort will focus foreclosure prevention efforts through direct contact with homeowners before they become delinquent or get too far behind in their mortgage payments.

The federal government can support these local efforts by providing increased funding for homebuyer counseling.

The federal government can also provide incentives that will increase resources for counseling without cost to the Treasury. For example, the National Financial Literacy Act of 2007, sponsored by Representatives Ellison, Johnson and Carson (HR 2840) would allow the direct support by a financial institution of a qualified community-based financial literacy program to be taken into account in assessing the institution's community reinvestment act (CRA) record of meeting a community's credit needs.

3. <u>Fund Community Revitalization Efforts</u>.

The prevalence of foreclosed properties in several neighborhoods in the Twin Cites is a clear and immediate threat to their vitality. In response, the Foreclosure Prevention Funders' Council was formed by the Family Housing Fund under the leadership of Elizabeth Ryan from the City of Minneapolis. The council is comprised of representatives from both the cities of Minneapolis and St. Paul, Dakota County, Minnesota Housing, the Family Housing Fund, Fannie Mae and several other not-for-profit organizations. The council has established a number of working groups to focus on its three primary goals:

- Identify existing residential foreclosures to determine the causes of foreclosure.
- Coordinate existing financial resources to focus on residential foreclosures.
- Create new financing and innovative remediation and rehabilitation tools to address the problems associated with increased foreclosures and with vacant and boarded buildings.

In response, Minnesota Housing has awarded $11 million for acquisition, rehabilitation, and resale of foreclosed properties on Minneapolis' north side, and $500,000 to St. Paul for the same purpose. The goal is to stabilize these neighborhoods before they deteriorate further.

The federal government can support these local efforts by increasing HOME and CDBG funding that can be used by the states and communities as they determine best for this purpose.

I urge Congress to continue to robustly fund housing programs that can be used to provide affordable homeownership -- programs like CDBG and HOME -- and to require HUD to provide the greatest flexibility possible under the statutes to HOME grantees to provide homeownership in ways that offer a real and affordable alternative to very low-income people who cannot qualify for standard mortgage products. Any new programs, like the National Affordable Housing Trust Fund, should also provide flexibility to grantees to try new, affordable approaches to providing homeownership to those with few or no options in the mortgage markets.

To the extent the government can support efforts to educate homebuyers before they enter into a mortgage loan, and the extent to which affordable financing alternatives are readily available, the incidence of predatory lending may decline.

Thank you for the opportunity to address the Committee on this important topic. I welcome any questions you may have.